

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF NORTH CENTRAL)	
TELEPHONE COOPERATIVE, INC., FOR)	CASE NO. 8346
APPROVAL OF THE EXPENSING OF)	(PHASE 4)
STATION CONNECTIONS)	

O R D E R

Procedural Background

On November 26, 1984, North Central Telephone Cooperative, Inc., ("North Central") filed an application with the Commission to increase service connection charges to recover increased expenses resulting from phase 4 expensing of station connections, pursuant to the Commission's Order of September 28, 1981, in this case.

On January 29, 1985, the Commission ordered North Central to file additional information relating to the expensing of station connections and to identify the test period for purposes of determining absorption potential. On February 28, 1985, North Central filed the additional information, completing the record in the case as no hearing is required.

The Commission has received no comments from any interested party.

Discussion

In the Commission's Order of September 28, 1981, in this case, the Commission granted North Central the opportunity to file

tariffs on an annual basis to recover expenses related to the Commission's adoption of a 4-year phase-in plan for the expensing of station connections. Phase 4 of the 4-year phase was effective on October 1, 1984. In that Order, the Commission also stated that rate relief would be granted if North Central was not able to absorb any of the increased station connection expense. Absorption potential as set out in that Order is based on actual results adjusted solely for the effect of rate increases during the test period and on the rate of return approved in its most recent rate case.

North Central is a Tennessee Corporation established by and under the laws of the State of Tennessee operating in the Commonwealth of Kentucky. North Central's accounting records are not maintained on a jurisdictional basis. Thus, station connection expenses are not separated between Tennessee and Kentucky, except by simple allocation based on the relative number of jurisdictional access lines. Also, North Central's station connection charges are currently the same for subscribers in both Kentucky and Tennessee and, since the Tennessee Public Service Commission does not exert jurisdiction over North Central, the station connection rates authorized in this Order will be adopted by North Central in both Kentucky and Tennessee.

In an Order in this case of December 1, 1982, North Central was authorized a partial recovery of phase 1 station connection expenses in the amount of \$25,716, based on a total company (unseparated) revenue requirement of \$60,057. The Commission in

its Order dated December 20, 1983, in Case No. 8864, "The Application of North Central Telephone Cooperative, Inc., For Authority to Adjust its Rates And Charges," denied North Central's request for a rate case adjustment in the amount of \$27,139 for additional station connection expenses. This adjustment was deferred to this case on the basis that a review of that issue was more appropriate in this proceeding. On August 29, 1984, the Commission authorized North Central to increase its service charges an additional \$5,868 annually which represented a partial recovery of \$31,677 additional station connection expenses on an incremental basis for phases 2 and 3.

Information filed by North Central in this case indicates total company (unseparated) phase 4 station connection expenses in the amount of \$105,182. On an incremental basis, phase 4 represents an annual increase of \$13,448 above the phase 3 level. North Central has filed station connection rates and charges to recover \$27,120 on an overall basis annually; however, since the incremental expense is only \$13,448, the maximum increase which could be allowed is \$13,448.

In its response of February 28, 1985, North Central indicated that absorption potential should be based on the calendar year 1984. Based on the financial data supplied, North Central had a net income of \$357,388. Had the additional revenue awarded for phases 2 and 3 been in effect the entire test period, net income would have been \$361,300.¹ This would produce a times

¹ \$357,388 + \$3,912 = \$361,300

interest earned ratio ("TIER") of $1.43x^2$ which is above the level authorized in Case No. 8864 of $1.4x$. Increasing expenses to reflect the incremental increase of \$13,448 for phase 4 station connection expenses results in a TIER of $1.41x^3$. Thus, the Commission is of the opinion that North Central can fully absorb the increase from the implementation of phase 4 station connection expenses and maintain a TIER equal to or higher than the level prescribed in North Central's latest rate proceeding.

Findings and Orders

The Commission, having examined the evidence of record and being advised, is of the opinion and finds that:

1. The rates and charges proposed by North Central are unfair, unjust, and unreasonable and should be denied upon application of KRS 278.030.

2. North Central can fully absorb phase 4 station connection expenses and maintain a TIER above that authorized in Case No. 8864.

IT IS THEREFORE ORDERED that the rates and charges proposed by North Central be and they hereby are denied.

IT IS FURTHER ORDERED that North Central's present rates and charges shall remain in full force and effect.

$$^2 \quad \frac{\$361,300 + \$842,827}{\$842,827} = \frac{\$1,204,127}{\$842,827} = 1.43$$

$$^3 \quad \frac{(\$361,300 - \$13,448) + \$842,827}{\$842,827} = \frac{\$1,190,679}{\$842,827} = 1.41$$

Done at Frankfort, Kentucky, this 23rd day of April, 1985.

PUBLIC SERVICE COMMISSION

Richard D. Hemmick
Chairman

Ruth D. Dyer
Vice Chairman

Sam Shultz
Commissioner

ATTEST:

Secretary